

Agricultural Outlook Forum

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FORUM DINNER

Cal Dooley
President, CEO
Food Products Association

“Building Domestic and Foreign Markets for Rural Prosperity”
Remarks by
Cal Dooley
President and CEO, Food Products Association
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Good evening. I am delighted to be here with you. I am honored that Secretary Johanns has asked me to speak on a subject that is particularly important to me: the well-being of rural America, and how our nation’s farm policy can benefit our nation, as well as developing countries around the world.

I was born, raised and working on a farm prior to running for Congress. People often ask me why I decided to run for Congress, and my response is: If you have ever driven a D7 caterpillar tractor in August in the Central Valley of California, when it is dusty and 105 degrees, you know there is something better in life!

For most of my 14 years in Congress, I seldom missed sitting on a tractor, but there were occasions. Obviously, there were enough occasions that I decided to retire from Congress a little over a year ago and take the role of

as President and CEO of the Food Products Association. I traded Delay, Pelosi, pandering and grandstanding to focusing on food safety, nutrition, obesity and trade ... and I can tell you I came out way ahead!

I grew up around many Republicans. As a fourth generation farmer, I grew up a mile from where my dad was born and three miles where my mom was born. I was surrounded by family who were all farmers, who in California tend to be overwhelmingly Republican.

I often tell a story about my first campaign for Congress when I was trying to convince one of my Republican uncles to vote for me. After repeated efforts on my part, he finally said to me, “Cal, I have only voted for one Democrat in my life and that was when I was on a jury and I voted to hang him.”

I entered Congress with an objective of positioning the Democratic Party so my uncle would be less inclined to hang us. I helped to found the New Democratic Coalition in an effort to bring together Democrats committed to advancing an agenda that maximizes the economic opportunities of the U.S. domestically as well as internationally and at the same time empowering the maximum number of citizens to have the skills they need

to successfully compete in the global economy. I firmly believe this is a policy formulation that applies to all sectors of our economy, including agriculture.

Charles Darwin said, “It is not the strongest or the most intelligent of species that survive, but the ones most responsive to change.” Darwin’s statement is true for species, businesses, farmers and politicians and defines a principle we should embrace.

We are in an era of incredible and rapid change. It is clear that the dominant economic model we face is globalization, which is driven by the forces of speed: the speed of communication, the speed of innovation, the speed of commerce. We must accept that our national borders are becoming increasingly porous to the flows of information, capital and commerce. We no longer have the luxury of instituting or maintaining domestic policies that are immune from or inconsistent with these global forces.

All of us – in both the public and private sector – face a challenge to provide leadership that is focused on embracing the opportunities of the future and not simply responding to the challenges of the past.

Henry Wallace, Secretary of Agriculture under President Roosevelt, held a press conference during the depths of the great Depression to introduce a set of farm policies. In the words of Secretary Wallace, the programs were “a temporary solution to deal with an emergency.”

While I will acknowledge there have been some modifications to our farm policy over the last 75 years, we are still utilizing a form of those temporary solutions.

Which begs the question: Is our present farm policy designed for the age of globalization and are our policies assisting the maximum number of our farmers and rural residents to compete and win in the international marketplace?

My answer is No, and I would challenge any leader in agriculture – whether in Congress or representing a commodity or agricultural organization: If they had a clean slate and were asked to design a new agriculture policy for the U.S., would it look like what we have today?

- Would it provide 92% of crop subsidies to only five commodities: soybeans, cotton, corn, wheat and rice that make up less than 30% of US agricultural revenue.
- Would it direct those subsidies to only 30% of US farmers?
- Would it allow 10% of farmers to receive 70% of the subsidies paid by taxpayers?
- With over 40% of farmland owned by absentee landowners, would we design a policy that resulted in benefits being capitalized into land values, providing marginal benefit to farmers, while increasing the costs of production, reducing our competitiveness and creating barriers to entry for young farmers?
- Would we design a farm program that encouraged farmers to hope for lower prices? An Iowa corn farmer was quoted recently in the New York Times article; his quote, “Everybody leans on the loan deficiency program as much as they can. It is like opening up the federal treasury. There were quite a few people this year that wished the corn prices would go to zero because they would have a bigger LDP.” Can you imagine an apple grower in Washington, an almond grower in California, a cattle rancher in Texas, a peach grower in

Georgia, a grape grower in New York, making a statement that they hoped the price of their commodity would decline or go to zero?

- Would we design a program that failed to contribute to rural prosperity? A recent study by the Federal Reserve Bank of Kansas City found a negative correlation between the amount of farm payments rural counties receive and job and population growth. A statement from the study read, “In short, farm payments are not yielding robust economic and population gains in the counties where they should have the greatest impact. If anything, payments appear to be linked with sub par economic and population growth. Payments appear to create dependency on even more payments, not new growth.”
- Would we design a sugar or dairy program in a manner that actually impedes investment in the development and production of new products the marketplace is demanding or undermine the international competitiveness of U.S. food manufacturers? A U.S. Commerce Department report released on Tuesday found that our sugar policy has contributed to the loss of 10,000 jobs from 1997-2002 at companies that produce sugar-rich products. During this same period, employment grew by 30,000 jobs at food companies not heavily reliant on sugar. The same study found that our sugar

program is driving up food prices, which is in effect taxing US consumers \$1.5 billion a year.

Most objective parties would answer no to my set of questions.

It is distressing that the most compelling argument for continuing our farm programs is because the Common Agriculture Policy of the European Union is worse. I don't know what concerns me more: the Iowa corn farmer's statement or a French official's defense of EU's market distorting agricultural subsidies as safeguarding the country's "gastronomic sovereignty." Clearly, that is a response from the gut.

It seems to be just common sense that if we acknowledge we wouldn't recreate our current program because of its obvious flaws, we need to develop a new policy.

I know many farmers and some of our largest farm organizations are calling for an extension of our present Farm Bill until a successful conclusion of the Doha round. This, for some, is a little disingenuous, as they also don't want a DOHA round that forces the reduction of subsidies.

Many agriculture leaders unite around the refrain that we should not unilaterally disarm. I disagree.

A compelling argument can be made that the U.S. should follow the lead of Australia and New Zealand, who unilaterally reformed their farm policies ... with the result that their farm economies today are more robust, competitive and their agricultural revenue is growing as a share of total GDP.

I look at unilateral disarmament as taking the program commodities weapon of choice, the shovel, out of their hands so they do not continue to dig U.S. agriculture into a deeper hole.

I wouldn't be such an advocate for unilateral disarmament if the negative repercussions of our farm programs were limited to the commodities that receive subsidies, but farmers producing close to 75% of the agricultural output in the United States are competing today without subsidies and they are paying a price for our current farm policy.

If you go into a grocery store and stroll through the produce aisle, not one product is subsidized. When you go to the meat counter, the beef, poultry,

and pork were produced without subsidies. When you go through the frozen food and canned food sections, very few if any products received subsidies. I find myself laughing when I hear people defend our farm programs as being responsible for providing consumers with cheap food, the fallacy of the argument is exposed as prices of food from non-subsidized crops are equally inexpensive.

Allowing a minority of the farmers in the US to refuse to give up our archaic farm policies is holding hostage the 75% of US agriculture that is willing to compete and win in the global marketplace.

The failure to reform our farm policies only further emboldens the EU to continue their \$60 billion a year CAP and their export subsidies. It gives cover to Japan continuing their 500% tariff on rice imports; it facilitates Brazil and other developing countries from agreeing to provide greater market access to US products.

U.S. agriculture has always been and will continue to be dependent on exports and foreign markets. We cannot lose sight of the fact that last year we exported almost \$60 billion in agricultural production. One out of

every three acres cultivated in the US is devoted to production that is exported. We are exporting 68% of our cotton, 38% of our soybeans, 75% of California almonds, and ten percent of our beef production. U.S. agriculture's bottom line is largely dependent and certainly enhanced by exports. As we look to the future, exports hold the key to U.S. agriculture's financial prosperity.

An obvious argument for increased trade is the fact that only 4% of the world's population lives inside our borders, and if you look around at the people who are sitting next to you, a fairly representative sample of Americans, it is obvious that we cannot eat anymore! We must gain access to international markets and to consumers who are underfed.

In the next 30 years the world population of 6 billion is projected to grow to 8 or 9 billion. This growth will occur almost entirely in the developing world. It is in the developing world where we have the concentration of people who are underfed and the potential for increased consumption of U.S. agricultural products. Half the world's population lives on less than \$2 a day and over 30 cents of each additional dollar of income in the developing world goes to the purchase of food to improve diets.

The potential market is illustrated in the growth of average meat protein consumption in developing countries. Currently, citizens of the developing world consume one-quarter to one-third the amount of meat protein that consumers in the U.S and the industrialized world consume.

China's meat consumption alone has risen almost 10% annually over the last decade. Meat consumption worldwide has increased an average of 5 million tons a year recently, with two thirds of the increase occurring in the developing world.

What does this growth mean for agriculture? If you assume a conservative 3 to 1 feed conversion ratio and an average 3-ton per acre yield of feed grains, producing 5 million tons of meat protein requires the equivalent of about 5 million additional acres of feed grain. Five million additional acres just to provide for one year's increase in meat consumption.

The formula for a new golden age in U.S. agriculture lies in the most rapid modernization of the economies of the developing world and the adoption of trade and domestic farm policies that are consistent with that objective.

We have an opportunity to provide for a more prosperous future for U.S. agriculture by embracing free markets and by lending a helping hand to the poor countries of today who will be the consumers and purchasers of our products in the future. And one of the most effective hands of assistance we can provide to the developing world is to insure our farm and trade policies do not impede the ability of poor countries to capitalize on their relative advantages in the global marketplace.

It was Winston Churchill's observation that you can always count on the Americans to do the right thing, after they have tried everything else.

Well, we may not have tried everything else in our farm policy, but it is clearly time for a change.

So ... Where do we go from here?

I commend the efforts of Secretary Johanns to challenge agriculture leaders to embrace a sustainable farm policy that is consistent with the international forces of the globalization.

The overriding role of the federal government should be to assist our farmer's ability to compete and win internationally and to design our agricultural policy in a manner that empowers our broader rural constituency to prosper in the age of globalization.

We can provide an appropriate safety net for our farmers. We need to provide farmers with a new toolbox that contains the tools a farmer needs to manage risks while minimizing distortions in the marketplace. These tools should be available to all farmers, not just the program commodities, and they should be structured to manage short-term risk resulting from natural disasters and unusually low-revenue years.

A couple of options that have promise are whole farm revenue insurance and Farm savings accounts.

We must design our safety net programs to manage revenue volatility and not to be another welfare program whose primary purpose is to transfer income from taxpayers to a favored few.

Moreover, if we move to a revenue insurance program, it must be designed to be actuarially sound. We do not need another insurance program that is fraught with inefficiencies and prone to moral hazard.

I am most intrigued by the concept of Farm savings accounts. They would be an effective tool to assist farmers in their efforts to manage the volatility of the marketplace.

I acknowledge that we will need to adopt a transition program to wean commodity farmers from their dependency on subsidies. A policy could be designed to allow commodity farmers to deposit a declining series of subsidy payments into farm savings accounts that would receive preferential tax treatment. In years when farmers have higher incomes, they would be allowed to make tax-free contributions into these accounts. Farmers could also deposit payments for participation in environmental stewardship programs into these accounts as well.

It is unfortunate that providing farmers with access to farm savings accounts could be derailed by an issue of jurisdiction in Congress. It will be a travesty if we allow responsible reforms of our farm policy to be impeded by whether the Agriculture Committee or Ways and Means would gain or lose control of a program.

Our policy should also reward farmers, as stewards of the land, for their role in enhancing our environment. Whether it is by enhancing wildlife habitat, or improving water or air quality, there are many environmental benefits that agriculture can provide to our society. As these environmental benefits provide a public good, it is appropriate that farmers be financially compensated for those investments.

The President's call in his State of the Union address to kick our addiction and dependency on the importation of foreign oil provides a terrific opening to enhance market opportunities for farmers and stimulate investment in our rural communities. The President's budget calls for a 65% increase in programs intended to produce fuels from soybeans, corn and sugar. Surely if Brazil can obtain a high level of energy independence through the development and use of biofuels, the U.S. can be equally successful. However, it will require reforming our current sugar policy, which is contributing to the obsolescence of our domestic sugar industry.

Our success in achieving greater energy independence requires the abandonment of policies that limit domestic production and restrict access to international supplies. Additional investment in biofuels research and development is critical to achieving greater energy independence.

The key to ethanol becoming price-competitive quite likely lies in advances in cellulosic ethanol research.

The federal government has an appropriate role to play in assisting U.S. farmers to be on the leading edge of technology. Investments in agricultural research are the key to enhancing productivity and creating new markets for commodities.

In 1990 when I left full-time farming for Congress, my cousin Bo took over the management responsibilities. When I left, we were averaging two bales of cotton per acre. Ten years later, we achieved yields of four bales to the acre.

Now my cousin, Bo, will tell you it is because they got rid of the dead weight and now had superior management! Management certainly played a role, but our increases in yields were more the result of research that led to the development of new cotton varieties and cultural practices that raised yields and lowered our per-unit costs of production, enhancing our competitiveness.

Redirecting funding from subsidies that provide a short-term fix for a few farmers to agricultural research will enhance farmer productivity and competitiveness and develop new market and investment opportunities for farmers and rural America.

We also must recognize that a significant relative advantage U.S. agriculture has enjoyed internationally is our transportation infrastructure. We must develop a strategy to ensure we are making the public investments in our roads, rivers, and ports that will allow the U.S. to maintain our advantage in moving our products from the farm to the global marketplace.

The politics of reforming our farm policy are difficult. One only has to review the responses from some politicians to the President's recent budget proposal – to reduce farm subsidies by 6% – to appreciate the challenge. In today's polarized political environment, pandering to the interests of the status quo will be very seductive.

I would hope that the leaders of the program commodities would acknowledge the inequities and incompatibility of our present farm policy with today's economic environment and embrace a comprehensive reform.

However, I am not optimistic the program crops will voluntarily kick their dependency on subsidies.

But we must not back away from the challenge to cast off the policies of the past and to design the 2007 Farm Bill consistent with the age of globalization.

To be successful we will need to develop a broad-based coalition.

- A coalition that includes the 70 to 80% of U.S. agriculture that does not benefit from today's programs and in many respects is harmed. We need to unite the fruit and vegetable growers, the wine and nut producers, the beef, pork and poultry producers.
- A coalition that includes environmental interests, who see the promise of farm programs that will enhance the quality of air, water and wildlife habitat.
- A coalition that includes the research and academic community, who see the opportunity to contribute to advances in science and technology that increase market opportunities and enhances the competitiveness of U.S. farmers, while contributing to broader societal benefits.

- A coalition that includes interests representing rural communities, who understand a more sustainable and prosperous future lies with investment in biofuels and value-added food products manufactured in their communities, rather than the existing trickle-down dependency on subsidy checks that all too often end up in the pockets of absentee landowners.
- A coalition that includes groups who see the opportunity to design our farm policy to more effectively meet the nutritional needs of families, especially children from low-income families in the U.S. and the developing world.
- A coalition that includes non-governmental organizations committed to aiding the economic development of the poorest countries of the world, who realize a less market-distorting farm policy will yield higher prices and expanded agricultural markets for many of the poorest countries.
- A coalition that includes the Club for Growth, conservative think tanks CATO and the Heritage Foundation who support market-oriented policies.
- A coalition that includes the manufacturing, technology and service sectors, who are being denied the opportunity to gain

greater access to international markets because our farm programs are an obstacle to trade liberalization.

We have the opportunity to develop a broad-based political coalition to advance a policy that provides all farmers with tools to manage financial risks, tools to enhance international competitiveness, tools to enhance our environment, tools to stimulate growth in rural America and allow the U.S. to once again occupy the intellectual and moral high ground by extending a helping hand to the developing countries of the world.

I appreciate the invitation by Secretary Johanns to speak to you tonight. I think he may have invited me in the interest of positioning him as the moderate in the farm bill debate. I appreciate and respect the leadership the Secretary is providing, his engaging farmers and rural America, listening to those that farm with and without subsidies, listening to the residents of rural America who are looking for a brighter future.

However, the time for action is upon us.

I recognize that there are some who are here tonight, who are probably in the minority, that may agree with my vision – and I know that there are others who seriously disagree with my comments. Rest assured that I know which invitations I should not accept to go quail hunting!

But, in all cases, I thank you for being here and listening to my remarks, and for your shared commitment to advancing the interests of farmers and rural America.